

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>INTERURBAN TRANSIT AUTHORITY</b>	County <b>ALLEGAN</b>
Audit Date <b>9/30/05</b>	Opinion Date <b>11/23/05</b>	Date Accountant Report Submitted to State: <b>1/20/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

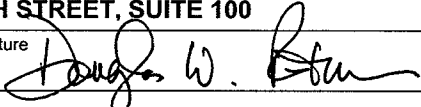
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>FERRIS, BUSSCHER &amp; ZWIERS, P.C.</b>			
Street Address <b>675 E. 16TH STREET, SUITE 100</b>	City <b>HOLLAND</b>	State <b>MI</b>	ZIP <b>49423</b>
Accountant Signature 		Date <b>1/20/06</b>	

INTERURBAN TRANSIT AUTHORITY

COUNTY OF ALLEGAN, MICHIGAN

FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

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November 23, 2005

Board of Directors  
Interurban Transit Authority  
Douglas, Michigan

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Interurban Transit Authority, County of Allegan, Michigan as of and for the year ended September 30, 2005, as listed in the index. These financial statements are the responsibility of Interurban Transit Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Interurban Transit Authority, County of Allegan, Michigan as of September 30, 2005 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Management has elected to omit the Management's Discussion and Analysis from the required supplementary information.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2005 on our consideration of Interurban Transit Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

*Ferris, Busscher & Zwiwers, P.C.*

FERRIS, BUSSCHER & ZWIERS, P.C.  
Certified Public Accountants  
Holland, Michigan

675 East 16th Street  
Suite 100  
Holland Michigan 49423  
Phone: (616) 392-8534  
Fax: (616) 392-7299  
[www.fbzcpa.com](http://www.fbzcpa.com)

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2005

ASSETS

CURRENT ASSETS

Cash and equivalents	\$ 31,195
Investments	170,000
Section 5311 Federal grant receivable	106,534
Other receivables	2,760
Interest receivable	760
Prepaid insurance	<u>2,605</u>

TOTAL CURRENT ASSETS \$ 313,854

NONCURRENT ASSETS

Capital assets

Land	\$ 27,531
Other capital assets, net of depreciation	260,398
Prepaid retirement contribution	<u>56,255</u>

TOTAL NONCURRENT ASSETS \$ 344,184

TOTAL ASSETS \$ 658,038

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 25,199
Employees' funds withheld	911
Accrued liabilities	
Wages	4,906
Payroll taxes and benefits	1,801
Compensated absences	<u>4,534</u>

TOTAL CURRENT LIABILITIES \$ 37,351

NET ASSETS

Invested in capital assets	\$ 287,929
Unrestricted	<u>332,758</u>

TOTAL NET ASSETS \$ 620,687

See notes to financial statements

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
YEAR ENDED SEPTEMBER 30, 2005

OPERATING REVENUES	
Demand response (farebox)	\$ 48,678
TOTAL OPERATING REVENUES	<u>\$ 48,678</u>
OPERATING EXPENSES	
Operations	\$ 398,871
Maintenance	68,868
General administration	<u>173,236</u>
TOTAL OPERATING EXPENSES	<u>\$ 640,975</u>
OPERATING LOSS	<u>\$ (592,297)</u>
NONOPERATING REVENUES	
Tax levy	\$ 160,479
State operating grants	214,627
Federal operating grants	70,070
Interest income	<u>4,068</u>
TOTAL NONOPERATING REVENUES	<u>\$ 449,244</u>
LOSS BEFORE CONTRIBUTIONS	<u>\$ (143,053)</u>
CAPITAL CONTRIBUTIONS	
State and federal grants	<u>\$ 57,460</u>
CHANGE IN NET ASSETS	\$ (85,593)
NET ASSETS - OCTOBER 1, 2004	<u>706,280</u>
NET ASSETS - SEPTEMBER 30, 2005	<u>\$ 620,687</u>

See notes to financial statements

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
STATEMENT OF CASH FLOWS  
YEAR ENDED SEPTEMBER 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 54,218
Payments to employees for services	(281,529)
Payments to suppliers for goods and services	(137,849)
Other payments	<u>(124,604)</u>
NET CASH USED BY OPERATING ACTIVITIES	\$ <u>(489,764)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Nonoperating grants received	\$ <u>422,071</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	\$ <u>(57,460)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	\$ <u>4,068</u>
NET DECREASE IN CASH	\$ (121,085)
CASH AND EQUIVALENTS - OCTOBER 1, 2004	<u>152,280</u>
CASH AND EQUIVALENTS - SEPTEMBER 30, 2005	\$ <u><u>31,195</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (592,297)
Adjustments to reconcile net operating loss to net cash used by operating activities	
Depreciation expense	75,134
Change in assets and liabilities	
Receivables	5,540
Accounts payable and accrued liabilities	<u>21,859</u>
NET CASH USED BY OPERATING ACTIVITIES	\$ <u><u>(489,764)</u></u>

See notes to financial statements

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interurban Transit Authority is organized as a non-profit corporation. The incorporating municipalities include the City of Saugatuck, City of the Village of Douglas and Saugatuck Township. The Authority has the capability and the authority to provide public transportation to the general public.

**BASIS OF ACCOUNTING**

The Authority is accounted for in a proprietary fund which accounts for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to proprietary funds of governmental units, and, accordingly, the accrual basis of accounting and economic resource measurement focus are followed. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperation items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance. The government has elected not to follow subsequent private-sector guidance.

The following is a summary of the more significant accounting policies:

**BANK DEPOSITS AND INVESTMENTS**

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**PREPAID ITEMS**

Certain payments to vendors reflect costs applicable to future years and are recorded as prepaid items.

**CAPITAL ASSETS**

Capital assets include property, plant and equipment. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.



INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Land improvements	10
Operating facility	20
Revenue vehicles	5-7
Office equipment	5-10
Yard equipment	5

COMPENSATED ABSENCES (VACATION AND SICK LEAVE)

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available to the employees monthly. Vacation leave must be used within 18 months after it has been earned. Any unused vacation time at the time of termination will be paid to the employee.

Sick leave is earned at a rate of five days per year. It cannot be accumulated from year to year.

Vacation or sick leave utilized during the year is recorded as a current expense. At year end, each employee's accumulated vacation leave is computed by applying their current rate of pay times total accumulated hours. The composite dollar total for all employees is entered as an accrued liability by an applicable adjusting entry posted to the liability and expense account.

RESTRICTED NET ASSETS

The Authority's policy is to first apply restricted resources when an expense is incurred for which restricted and unrestricted net assets are available.

ADVERTISING COSTS

The Authority expenses all advertising costs as incurred. Advertising expense was \$17,378 for the year ended September 30, 2005.

NOTE 2 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Sections 129.91 authorizes the Authority to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority Board has designated three banks for the deposit of Authority funds. The investment policy adopted by the Board is in accordance with Public Act 196 of 1997.

At year-end the Authority's deposits and investments were reported in the basic financial statements in the following categories:

Cash and cash equivalents	\$ 31,195
Investments	<u>170,000</u>
Total	<u>\$201,195</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$201,135
Petty cash and cash on hand	<u>60</u>
Total	<u>\$201,195</u>

The bank balance of the Authority's deposits is \$216,139 of which \$216,139 is covered by federal depository insurance and \$0 uninsured and uncollateralized.

NOTE 3 – CAPITAL ASSETS

Capital assets consist of the following as of September 30, 2005:

	Purchased With Interurban Funds	Purchased With Capital Grants	Total
Land	\$ 31	\$ 27,500	\$ 27,531
Land improvements	17,732	-	17,732
Operating facility	81,686	330,571	412,257
Revenue vehicles	970	477,792	478,762
Office equipment	17,387	24,084	41,471
Yard equipment	<u>8,395</u>	<u>31,699</u>	<u>40,094</u>
Totals	\$126,201	\$ 891,646	\$1,017,847
Less accumulated depreciation	<u>(86,620)</u>	<u>(643,298)</u>	<u>(729,918)</u>
Totals	<u>\$ 39,581</u>	<u>\$ 248,348</u>	<u>\$ 287,929</u>

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Capital asset activity for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 27,531	\$ -	\$ -	\$ 27,531
Subtotal	\$ 27,531	\$ -	\$ -	\$ 27,531
Capital assets being depreciated				
Land improvements	\$ 17,732	\$ -	\$ -	\$ 17,732
Operating facility	412,257	-	-	412,257
Revenue vehicles	426,110	52,652	-	478,762
Office equipment	41,691	4,808	(5,028)	41,471
Yard equipment	<u>40,502</u>	<u>-</u>	<u>(408)</u>	<u>40,094</u>
Subtotal	\$938,292	\$ 57,460	\$ (5,436)	\$990,316
Less accumulated depreciation for				
Land improvements	\$ 8,479	\$ 1,045	\$ -	\$ 9,524
Operating facility	264,603	21,668	-	286,271
Revenue vehicles	309,568	49,399	-	358,967
Office equipment	37,233	2,857	(5,028)	35,062
Yard equipment	<u>40,337</u>	<u>165</u>	<u>(408)</u>	<u>40,094</u>
Subtotal	\$666,220	\$ 75,134	\$ (5,436)	\$729,918
Net capital assets being depreciated	\$278,072	\$(17,674)	\$(5,436)	\$260,398
Total capital assets – net of depreciation	<u>\$305,603</u>	<u>\$(17,674)</u>	<u>\$ -</u>	<u>\$ 287,929</u>

Depreciation expense was \$75,134 for the year ended September 30, 2005.

When federal or state funded assets are withdrawn from a public transportation service, the disposition of the assets are to be determined by the Michigan Department of Transportation.

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

NOTE 4 – DEFINED BENEFIT PENSION PLAN

PLAN DESCRIPTION

The Authority's defined benefit pension plan, which consists of participation in the Municipal Employees' Retirement System of Michigan, provides retirement, disability and death benefits to plan members and beneficiaries. The Municipal Employees' Retirement System of Michigan ("System") is an agent multiple-employer pension plan administered by the Retirement Board of the Municipal Employees' Retirement System of Michigan. The authority to establish and amend the benefit provisions of the plan rests with the System's Retirement Board; the provisions of the Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220; and the System's plan document. The Authority adopts its specific benefit provision. The System issues a publicly available financial report that includes financial statements and required supplemental information for the Municipal Employees' Retirement System of Michigan. That report may be obtained by writing to the Municipal Employees' Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling 1-800-767-6377.

FUNDING POLICY

The Authority's plan members do not contribute to the System. The Authority is required to contribute at an actuarially determined rate. The required contribution for the period October 1, 2004 through September 30, 2005 was based on the annual actuarial valuation as of December 31, 2002. The net rate used was 7.25% of a projected annual covered payroll. The contribution requirements of plan members are selected by the Authority. The contribution requirements of the Authority are established and may be amended by the System's Retirement Board, yet the Authority selects its specific benefit provision.

ANNUAL PENSION COST

For the year ended September 30, 2005, the Authority's annual pension cost of \$16,856 for participation in the System was equal to the Authority's required and actual contributions. The required contribution was determined as part of the December 31, 1996 actuarial valuation using the entry age normal cost method. This funding method has been used since the December 31, 1993 valuation. The assumptions and methods used in the December 31, 2003 actuarial valuation are those adopted by the Retirement Board. The actuarial assumptions were last revised as of December 31, 2000 to reflect the results of the study of plan experience covering the period from December 31, 1993 through December 31, 1998. Prior to then, the attained age normal cost method had been in effect. The actuarial assumptions used in the December 31, 1996 valuation included a long-term net investment yield rate of 8% and projected annual salary increases of 4.5%, plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases ranging from 0% to 4.16%. The actuarial value of the Authority's plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis which remains stable at 30 years.

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

NOTE 4 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

The following is a schedule of funding progress relating to the Authority's participation in the System:

Actuarial Valuation <u>Date</u>	Actuarial Value of <u>Assets</u>	Actuarial Liability-Entry Age Normal <u>Cost Method</u>	(Overfunded) Unfunded Actuarial Accrued <u>Liability</u>	Funded <u>Ratio</u>	Covered <u>Payroll</u>	Unfunded Actuarial Accrued Liability as a Percentage of <u>Covered Payroll</u>
12/31/02	\$479,687	\$488,972	\$ 9,285	98%	\$204,610	5%
12/31/03	540,097	539,528	(569)	100	209,035	0
12/31/04	598,063	581,109	(16,954)	103	226,962	0

The following is a schedule of annual pension cost and net pension obligation relating to the Authority's participation in the System:

Fiscal Year <u>Ending</u>	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
09/30/03	\$16,923	100	0
09/30/04	19,492	100	0
09/30/05	16,856	100	0

NOTE 5 – COST ALLOCATION PLANS

The Authority has cost allocation plans approved by the Bus Transit Division of the Michigan Department of Transportation for all allocated expenses. These plans have been adhered to in the preparation of the financial statements.

NOTE 6 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and workman's compensation benefits provided to employees.

The Authority is a member of the Michigan Transit Pool, a public entity risk pool, which provides insurance coverage for State of Michigan transit authorities. As a public entity risk pool, the pool is comprised of a cooperative group of governmental entities that have joined together to finance certain risks. As a participant in this pool, the Authority is insured under a retrospectively rated policy whereby the initial premium is adjusted based on actual experience during the period of coverage. Insurance coverage provided by participation in this pool includes general and automobile liability protection and direct property damage coverage. In addition, liability, property and crime coverage is provided for as a participant in another public entity risk pool, the Michigan Municipal Risk Management Authority. No additional accrual has been made on the books of the Authority as of September 30, 2005 for any potential amounts due as a result of participating in these public entity risk pools.

The Authority purchases commercial insurance for workman's compensation coverage and medical benefits. Settled claims for insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through insurance during the past year.

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005

NOTE 7 – SUBSEQUENT EVENTS

On August 16, 2002, the Authority was awarded a grant from the Federal Transit Administration and the Michigan Department of Transportation for communication equipment. The equipment is valued at \$18,000. As of September 30, 2005, \$10,768 of this grant has been received. The capitalized cost of the communication equipment and the related income will be recorded when the equipment is received by the Authority.

On August 16, 2004, the Authority was awarded a grant from the Federal Transit Administration and Michigan Department of Transportation for a computer. The computer is valued at \$4,000. As of September 30, 2005, the computer has not been received by the Authority. The capitalized costs of the computer and related income will be recorded when the equipment is received by the Authority.

On August 6, 2002, the Authority was awarded a grant from the Michigan Department of Transportation for two 11 seat passenger buses with lifts. The vehicles are valued at \$101,477. As of September 30, 2005, one vehicle has not been received by the Authority. The capitalized cost of the vehicle and the related income will be recorded when the vehicle is received by the Authority.

On November 13, 2003, the Authority was awarded a grant from the Michigan Department of Transportation for a small bus. The vehicle is valued at \$48,207. As of September 30, 2005, the vehicle has not been received by the Authority. The capitalized cost of the vehicle and the related income will be recorded when the vehicle is received by the Authority.

On September 14, 2004, the Authority was awarded a grant from the Michigan Department of Transportation for a 10 seat passenger bus with a lift. As of September 30, 2005, \$52,652 has been requested by the Authority for reimbursement for the purchase of this bus. The remaining \$24,653 of this grant will be used to purchase a small shuttle bus. The capitalized cost of the vehicle and the related income will be recorded when the vehicle is received by the Authority.

## SUPPLEMENTARY INFORMATION

November 23, 2005

Board of Directors  
Interurban Transit Authority  
Douglas, Michigan

### INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Our report on our audit of the financial statements of Interurban Transit Authority, County of Allegan, Michigan for the year ended September 30, 2005 precedes the basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedules of supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Ferris, Busscher & Zwiars, P.C.*

FERRIS, BUSSCHER & ZWIERS, P.C.  
Certified Public Accountants  
Holland, Michigan

675 East 16th Street  
Suite 100  
Holland Michigan 49423  
Phone: (616) 392-8534  
Fax: (616) 392-7299  
[www.fbzcpa.com](http://www.fbzcpa.com)

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INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
SCHEDULE OF NONOPERATING REVENUES  
YEAR ENDED SEPTEMBER 30, 2005

SCHEDULE 1

NONOPERATING REVENUES - LOCAL

Local operating grants		
Tax levy	\$	160,479
Interest income		<u>4,068</u>

TOTAL NONOPERATING REVENUES - LOCAL	\$	<u>164,547</u>
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NONOPERATING REVENUES - STATE AND FEDERAL

State of Michigan operating grants		
Formula operating assistance (Act 51)		
Fiscal year 2004 and prior years	\$	(5,983)
Fiscal year 2005		<u>220,610</u>
	\$	214,627

State and Federal capital grants		57,460
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Federal operating grants		
U.S. DOT operating grant - Section 5311		
Contract 2002-0048	\$	61,044
Plus underpayment due to maximum reimbursement calculation (Schedule 6)		<u>9,026</u>
		<u>70,070</u>

TOTAL NONOPERATING REVENUES - STATE AND FEDERAL	\$	<u>342,157</u>
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TOTAL NONOPERATING REVENUES	\$	<u>506,704</u>
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INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
SCHEDULE OF OPERATING EXPENSES  
YEAR ENDED SEPTEMBER 30, 2005

SCHEDULE 2

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
LABOR				
Operators' salaries and wages	\$ 140,434	\$ -	\$ -	\$ 140,434
Other salaries and wages	1,427	34,518	46,092	82,037
Dispatchers' salaries and wages	60,181	-	-	60,181
FRINGE BENEFITS	83,134	21,190	19,814	124,138
SERVICES				
Advertising fees	-	-	17,378	17,378
Other services	5,387	4,657	14,394	24,438
MATERIALS AND SUPPLIES CONSUMED				
Fuel and lubricants	27,788	-	-	27,788
Tires and tubes	2,005	-	-	2,005
Other materials and supplies	4,512	7,200	1,448	13,160
UTILITIES	1,412	1,184	9,226	11,822
CASUALTY AND LIABILITY COSTS				
Premium for public liability	21,424	-	-	21,424
Other insurance	800	-	36,401	37,201
MISCELLANEOUS EXPENSES				
Travel and meetings	-	119	1,646	1,765
Other miscellaneous expenses	803	-	1,267	2,070
DEPRECIATION	<u>49,564</u>	<u>-</u>	<u>25,570</u>	<u>75,134</u>
TOTAL EXPENSES	<u>\$ 398,871</u>	<u>\$ 68,868</u>	<u>\$ 173,236</u>	<u>\$ 640,975</u>

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS  
YEAR ENDED SEPTEMBER 30, 2005

SCHEDULE 3

	<u>Operations</u>	<u>Total</u>
Labor	\$ 282,652	\$ 282,652
Fringe benefits	124,138	124,138
Services	41,816	41,816
Materials and supplies consumed	42,953	42,953
Utilities	11,822	11,822
Casualty and liability costs	58,625	58,625
Miscellaneous expenses	3,835	3,835
Depreciation	<u>75,134</u>	<u>75,134</u>
 TOTAL	 \$ 640,975	 \$ 640,975
Less ineligible expenses	<u>75,896</u>	<u>75,896</u>
 TOTAL ELIGIBLE EXPENSES	 <u>\$ 565,079</u>	 <u>\$ 565,079</u>

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS  
YEAR ENDED SEPTEMBER 30, 2005

SCHEDULE 4

	Federal Section <u>5311</u>	State Operating <u>Assistance</u>
EXPENSES		
Labor	\$ 282,652	\$ 282,652
Fringe benefits	124,138	124,138
Services	41,816	41,816
Materials and supplies consumed	42,953	42,953
Utilities	11,822	11,822
Casualty and liability costs	58,625	58,625
Miscellaneous expenses	3,835	3,835
Depreciation	<u>75,134</u>	<u>75,134</u>
 TOTAL EXPENSES	 <u>\$ 640,975</u>	 <u>\$ 640,975</u>
LESS INELIGIBLE EXPENSES		
Depreciation	\$ 68,389	\$ 66,949
Miscellaneous	82	82
Services	<u>7,425</u>	<u>-</u>
 TOTAL INELIGIBLE EXPENSES	 <u>\$ 75,896</u>	 <u>\$ 67,031</u>
 NET ELIGIBLE EXPENSES	 <u>\$ 565,079</u>	 <u>\$ 573,944</u>
 MAXIMUM SECTION 5311 REIMBURSEMENT (12.4%)	 <u>\$ 70,070</u>	
 ELIGIBLE FOR STATE OPERATING ASSISTANCE		
 STATE OPERATING ASSISTANCE (38.4376%)		 <u>\$ 220,610</u>

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS/INELIGIBLE EXPENSES  
YEAR ENDED SEPTEMBER 30, 2005

SCHEDULE 5

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Ineligible/Questioned Costs</u>	
		Federal Section 5311 per OMB <u>Circular A-87</u>	State Operating Assistance per Revenue and Expense <u>Manual</u>
A. Operating Grants			
	1. Depreciation: Depreciation accrued on contributed capital and depreciation accrued on cost overruns must be deducted as an ineligible expense.	\$68,389	\$66,949
	2. Miscellaneous: A percentage of the annual dues paid to the Michigan Transit Association must be deducted as an ineligible expense.	\$ 82	\$ 82
	3. Services: The cost of the Authority's annual financial statement audit is an ineligible expense for Federal Section 5311.	\$ 7,425	\$ -

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
SCHEDULE OF FINANCIAL ASSISTANCE FEDERAL AND STATE  
YEAR ENDED SEPTEMBER 30, 2005

SCHEDULE 6

<u>FEDERAL GRANTOR/PASS THRU GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>STATE GRANTOR NUMBER</u>	<u>PROGRAM OR AWARD AMOUNT</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
State; & federal operating assistance Computations based on operating expenses Passed through MDOT			
Operating assistance – Section 5311	20.509	2002-0048	\$ 70,070
Operating assistance – Section 5311	20.509	2002-0048	
Operating assistance – Section 5311	20.509	2001-0913	
<u>MICHIGAN DEPARTMENT OF TRANSPORTATION</u>			
Operating assistance – Act 51	N/A	9/30/2005	220,610
Operating assistance – Act 51	N/A	9/30/2004	
Operating assistance – Act 51	N/A	9/30/2001	
Operating assistance – Act 51	N/A	9/30/2000	
TOTAL OPERATING ASSISTANCE			<u>\$290,680</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Passed through MDOT Capital assistance			
<u>MICHIGAN DEPARTMENT OF TRANSPORTATION</u>			
Capital assistance		2002-0048	\$
Capital assistance		* 2002-0048	
Capital assistance		2002-0048	
Capital assistance		* 2002-0048	
Capital assistance		* 2002-0048	
TOTAL CAPITAL ASSISTANCE			<u>\$</u>

\* This grant is for the purchase of a vehicle purchased directly by MDOT

<u>FEDERAL RECEIPTS\ REVENUE</u>	<u>STATE RECEIPTS\ REVENUE</u>	<u>DISBURSEMENTS/ EXPENDITURES</u>	<u>AMOUNT REMAINING</u>
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\$ 61,044		\$ 640,975	\$ 9,026
4,582			1,122
121			

	\$ 198,425		22,185
			7,572
			532
			8,637

<u>\$ 65,747</u>	<u>\$ 198,425</u>	<u>\$ 640,975</u>	<u>\$ 49,074</u>
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\$	\$ 4,808	\$ 4,808	\$ 7,232
			48,347
			4,000
			48,207
	<u>52,652</u>	<u>52,652</u>	<u>24,653</u>
<u>\$</u>	<u>\$ 57,460</u>	<u>\$ 57,460</u>	<u>\$ 132,439</u>

INTERURBAN TRANSIT AUTHORITY  
COUNTY OF ALLEGAN, MICHIGAN  
SCHEDULE OF VEHICLE MILES (UNAUDITED)  
YEAR ENDED SEPTEMBER 30, 2005

SCHEDULE 7

	Public Transportation <u>Mileage</u>
<u>DEMAND – RESPONSE</u>	
First quarter	26,251
Second quarter	26,287
Third quarter	31,965
Fourth quarter	<u>40,636</u>
 TOTAL OPERATION	 <u>125,139</u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.



November 23, 2005

Board of Directors  
Interurban Transit Authority  
Douglas, Michigan

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of Interurban Transit Authority, County of Allegan, Michigan as of and for the year ended September 30, 2005, and have issued our report thereon dated November 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether Interurban Transit Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

In planning and performing our audit, we considered Interurban Transit Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management and the Michigan Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.

*Ferris, Busscher & Zwiers, P.C.*

FERRIS, BUSSCHER & ZWIERS, P.C.

Certified Public Accountants

Holland, Michigan

675 East 16th Street  
Suite 100  
Holland Michigan 49423  
Phone: (616) 392-8534  
Fax: (616) 392-7299  
[www.fbzcpa.com](http://www.fbzcpa.com)

November 23, 2005

Melvin D. Busscher, CPA  
James L. Zwiars, CPA, MBA  
William D. Borgman, CPA, MST  
Douglas W. Rotman, CPA

Board of Directors  
Interurban Transit Authority  
Douglas, Michigan

Board Members:

Thank you for the opportunity to be of service to you in performing an audit of the financial statements of Interurban Transit Authority for the year ended September 30, 2005.

In planning and performing our audit of the financial statements of Interurban Transit Authority (the Authority), we noted the following matters that we would like to bring to your attention.

#### **Quarterly State Filings**

The Authority is required to file quarterly financial and mileage data reports to the State by the 10<sup>th</sup> day following the quarter. It was noted during our compliance testing of the state operating grant that the April 1 – June 30, 2005 quarterly report was submitted 7 days past the due date of August 9, 2005 due to an error in the electronic submission. We recommend that management continue to monitor the reporting process to ensure that filing is done on a timely basis for compliance with state grant regulations.

#### **Grant Reimbursements**

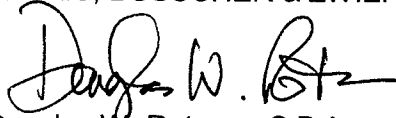
The Authority purchased a new bus in January 2005, however, submitted a request for reimbursement on the capital grant in late November, 2005. The Authority's own cash reserves funded the purchase of the vehicle causing potential cash flow concern for the Authority. We recommend that reimbursements be requested as soon as the vehicles are received and the necessary documentation can be compiled for the state. Disregard for follow up on this type of reimbursement could result in lost grant revenue for the Authority.

This report is intended solely for the information and use of the Board of Directors and management.

If you have any questions regarding the financial statements or the above recommendations and suggestions, we would be pleased to discuss them.

Sincerely,

FERRIS, BUSSCHER & ZWIERS, P.C.

  
Douglas W. Rotman, C.P.A.

675 East 16th Street  
Suite 100  
Holland Michigan 49423  
Phone: (616) 392-8534  
Fax: (616) 392-7299  
[www.fbzcpa.com](http://www.fbzcpa.com)